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FARMERS' NEWSLETTER
Cotton

October 81/C-19

Huge Harvest Will Cause Stocks To Soar

U.S. cotton farmers are looking at low prices and some tough marketing decisions this fall as they harvest their biggest crop in 28 years. As of September 1, USDA pegged the crop at 15.5 million bales, up 39 percent from last year.

Producers planted 14.3 million acres this year, and are expected to harvest 13.8 million. That works out to an unusually low abandonment of about 3.6 percent. Also, yields per harvested acre are seen at an unusually high 540 pounds, just 7 pounds shy of the 1979 record and 136 pounds larger than last year.

Higher yields are expected in every major cotton State, particularly in the Southwest and Delta regions. Ideal weather in Texas and Oklahoma could drive production there 82 percent above last year. A 41-percent gain is likely in the Delta, despite some recent dry weather in Mississippi and Louisiana.

While harvesting is complete in some areas--like the Rio Grande Valley--and underway in many others, most of you won't know the size of your crop for sure for another month or so.

By September 1, less than 3 percent of this season's crop was ginned. Cotton yields are harder to forecast than any other major crop, so with so much cotton still in the field, a lot of uncertainty surrounds the current production forecast. However, chances are 2 out of 3 that the crop will range from 14.4 to 16.6 million bales.

COTTON SUPPLIES TO RISE SHARPLY

Crop year beginning August 1	1979	1980[1]	1981[2] Projected	1981[2] Prob. variab.
	Million 480-lb. bales			
Beginning stocks	4.0	3.0	2.7	
Production	14.6	11.1	15.5	± 1.1
Total supply[3]	18.6	14.2	18.2	± 1.1
Mill use	6.5	5.9	6.2	± 0.5
Exports	9.2	5.9	7.0	± 1.5
Total use	15.7	11.9	13.2	± 1.7
Ending stocks[4]	3.0	2.7	5.0	± 1.5
	Cents per pound			
Farm price	63.4	[5] 76.4	([6])	
Target price[7]	57.70	58.40	70.87	
Loan rate[7]	50.23	48.00	52.46	

[1] Preliminary. [2] As of September 15, 1981. Chances are two out of three that the outcome will fall within the implied ranges. [3] Includes imports. [4] May not add because of rounding. [5] Average to April 1, 1981. [6] USDA is prohibited from publishing cotton price projections. [7] For grade 41 staple 34 cotton.

Mill use and exports may take 1.4 million more bales than last season, but that's only a third of the expected increase in production. Therefore, stocks on August 1, 1982, are likely to jump to around 5 million bales.

The prospect of large supplies and resulting low prices is making

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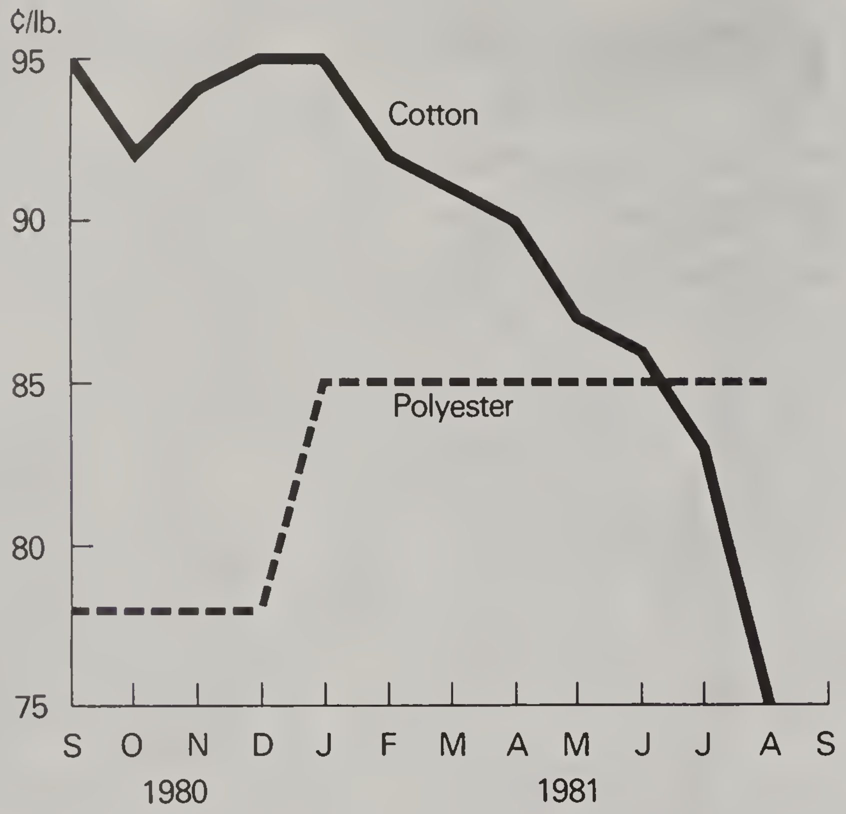
The next cotton newsletter is scheduled for early December.

PRICES FOR MILL-DELIVERED COTTON SINK BELOW POLYESTER



marketing difficult. Through August 31, growers had contracted only 8 percent of this season's acreage, compared with 30 percent a year ago. Should any shifts in supply and demand conditions cause temporary price upswings, try to contract some of your crop.

Improved Demand Could Help

The U.S. economic downturn of this spring and summer could reverse itself by the end of 1981 or early 1982 and boost cotton mill use. With consumer spending--adjusted for inflation--expected to rise throughout 1982, retail textile sales should strengthen.

If the economy grows as anticipated, mills could process 6.2 million bales this season, compared with 5.9 million a year ago. However, mills were still affected by slow textile sales during August and used cotton at an annnual rate of only 5.7 million bales.

Falling cotton prices could also bolster cotton mill use. During January, mills paid 10 cents a pound more for cotton (grade 41, staple 34) than for polyester staple. But during July, cotton averaged 3 cents less than polyester, and by early September, a pound of cotton sold for almost 15 cents less.

In contrast, a widening deficit in cotton textile trade could weaken domestic mill use. Over the past year, the value of the dollar has risen steadily against foreign currencies, making our textiles more expensive for foreign buyers and their textiles cheaper for us. Through the first half of 1981, U.S. imports of cotton textiles exceeded exports by 541,000 equivalent bales. At that rate, the trade deficit for the year could top 1 million bales, a level reached only once before, in 1978.

Meantime, exports of U.S. cotton are expected to rise to about 7 million bales this season, up from 5.9 million a year ago. Sales should get a boost from:

- relatively low U.S. cotton prices

- increased consumption by major foreign cotton importers

- reduced production in major cotton exporting countries.

Although many factors will determine exports this season, several bear close watching:

- The size of China's crop--now forecast at 13.3 million bales--will determine how much U.S. cotton the Chinese will need.

- The size of the USSR crop and Soviet export policy will be important in determining the amount of foreign cotton available to importers. The USSR crop is forecast at 13.5 million bales, down from 14.3 million in 1980.

- The Central American harvest this winter could be affected by political strife. Exports from this region normally exceed a million bales a season.

Review Production Costs

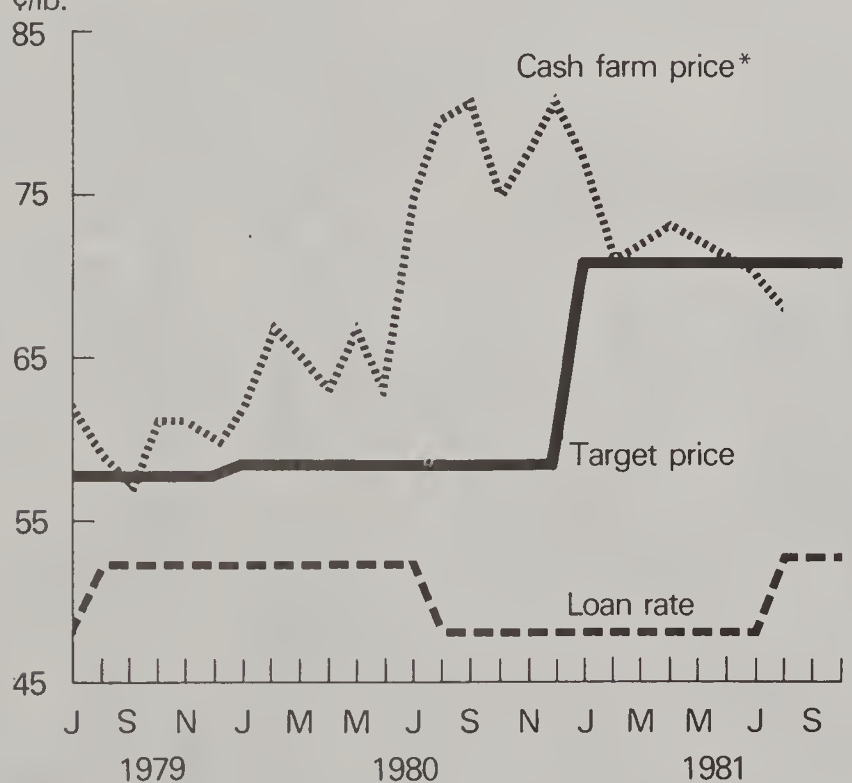
When choosing a marketing alternative, keep production costs in mind. Higher yields this season will likely offset increased per-acre costs and cause a drop in costs per pound for the average producer.

Based on the September yield forecast, total costs (excluding land) are projected at 78 cents a pound, down from 95 cents a year ago. After adjusting for the value of cotton seed, net costs are seen at 66 cents a pound, 18 cents lower. So even though big yields drive down prices, their cost-lowering effect should help cushion net income.

Study the Alternatives

Since most of you have not contracted your cotton, you will soon have to decide whether to sell for cash, contract at a fixed price, or put the crop under loan. Storing now while prices are low may look like a good option but remember that monthly carrying costs can wipe out small price gains. While your crop is in the warehouse, price increases must exceed carrying costs

UPLAND COTTON PRICES FALL BELOW TARGET



* Farm: U.S. average
Target: grade 41, staple 34

COSTS PER POUND DOWN FROM LAST YEAR [1]

Item	1979	1980[2]	1981[3]
		$/planted acre	
Variable	206	221	260
Machinery ownership	74	86	98
General farm overhead	9	10	11
Management	29	32	37
Total[4]	318	349	406
Yield/planted acre (lbs.)	502	366	520
Cost/lb. (¢)	63	95	78
Value of seed (¢/lb.)	10	11	12
Net cost (¢/lb.)	53	84	66

[1] Excludes land. [2] Preliminary. [3] Projected. [4] May not add because of rounding.

for this strategy to pay. Monthly carrying costs are made up of:

- Interest income foregone on the difference between what you could have sold your cotton for and what you received for putting it under loan. For example, this additional cash could earn in the neighborhood of 17 percent in money markets.

- Interest on the CCC loan. Now 14-1/2 percent, it's subject to adjustment on November 1 to better reflect the CCC's cost of borrowing money from the U.S. Treasury.

- Warehouse storage costs.

Suppose you don't sell at harvest in the cash market or contract at a fixed price. If you want to be able to set your price some time after harvest but avoid storage and CCC interest costs, you can try to negotiate a seller's call contract that requires the buyer to assume storage costs.

But this will cost you something since you still won't get the full market price at harvest, and you still face downside price risks. If you're really sure prices will rise after the crop is in but you want as much cash as possible at harvest and don't want to incur carrying costs, you can sell at harvest for the going price and buy futures contracts. Then, if all goes well,

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you can sell the contracts when prices eventually rise. However, this option has its costs too--margins, brokers' fees, and the risks inherent in futures market speculation.

If Prices Stay Low . . .

No matter which option you choose, if the 1981 average farm price is less than the target price of 70.87 cents a pound, you could be eligible for a deficiency payment. To qualify, however, you had to have registered your acreage at your ASCS office this summer.

The farm price that is compared to the target is an average of producer prices for each month of calendar year 1981 weighted by the estimated portion of the crop sold that month. However, we we won't have all the data needed to compute this price until early 1982.

The deficiency payment rate is the difference between the 1981 target and average farm prices and it applies to your planted acreage and payment yield. However, pounds for which disaster payments are received must be subtracted. For example, here's how it would work on the following farm situation, in which:

- 800 acres are planted to cotton.

- The program payment yield is 450 lbs/acre.

- Disaster payments are received for 8,438 pounds (25 acres x 75 percent of the program payment yield of 450 pounds).

- The calendar 1981 farm price is, say, is 68¢/lb.

- Plantings in 1981 are less than 1980 plantings, thus the allocation factor is 1.

For this farm, the amount of cotton eligible for deficiency payments is:
(800 x 450) - 8,438 = 351,562 pounds.

The deficiency payment is then:
351,562 x (70.87¢ - 68¢)
x 1 = $10,090.

If your 1981 plantings exceeded last year's plantings, your allocation factor equals this year's national program acreage divided by harvested acreage. The factor won't be determined until early in 1982 but is likely to be well over 0.9.

If payments are made, every eligible producer gets the difference between the 1981 target and average farm price regardless of his selling price.

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